

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

COMPETITIVE PRODUCT PRICES
INBOUND COMPETITIVE MULTI-SERVICE AGREEMENTS WITH
FOREIGN POSTAL OPERATORS
CHINA POST GROUP – UNITED STATES POSTAL SERVICE
MULTI-PRODUCT BILATERAL AGREEMENT (MC2010-34)
NEGOTIATED SERVICE AGREEMENT

Docket No. CP2014-39

RESPONSE OF THE UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 1
(April 21, 2014)

The United States Postal Service hereby provides its response to Questions 1 and 2 of Chairman's Information Request No. 1. The request was issued on April 16, 2014, with responses due on April 21, 2014. Each question is stated verbatim and followed by the Postal Service's response.

A public version of the Postal Service's response accompanies this notice, while a non-public version is being filed separately under seal with the Commission. The Postal Service maintains that the materials in the response that the Postal Service has designated as non-public fall within the scope of the application for non-public treatment that the Postal Service included in its initial notice in this docket.¹

¹ Notice of United States Postal Service of Filing Functionally Equivalent Inbound Competitive Multi-Service Agreement with a Foreign Postal Operators, Docket No. CP2014-39, April 10, 2014, Attachment 4.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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Question 1

1. Please refer to Notice of United States Postal Service of Filing Functionally Equivalent Inbound Competitive Multi-Service Agreement with a Foreign Postal Operator, April 10, 2014 (Notice) at 4, where the Postal Service states that the 2014 China Post Agreement includes rates for a "yet-to-be launched" inbound product. Based on a review of the 2013 China Post Agreement and the workpapers provided in the instant filing for the 2014 China Post Agreement, it appears that the "yet-to-be launched" inbound product has already been approved. See Docket No. CP2013-23, Order Approving Modification of China Post 2013 Agreement, June 18, 2013 (Order No. 1752).
 - a. Please provide volumes, if any, for the period July 1, 2013 to March 31, 2014 associated with the Air CP with Delivery Confirmation only and the Air CP with Signature Confirmation only products approved in Order No. 1752.
 - b. Please refer to the Notice at 4 which references "a yet-to-be launched inbound product." Is the latter the same as the products identified in subpart a? If not, please explain.

RESPONSE:

- a. For the period July 1, 2013 to March 31, 2014, [REDACTED]
associated with the Air CP with Delivery Confirmation only and the Air CP
with Signature Confirmation only products approved in Order No. 1752.
- b. [REDACTED]
[REDACTED]

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2. Please refer to Excel file "CP2014-39 China Post Agmt WkprsPubc.xlsx," tab '05_Product_Unit_Cost_Inputs." In Docket No. CP2013-23, the Commission's orders addressed concerns with the unit costs inputs in the supporting workpapers. See Docket No. CP2013-23, Order No. 1591, Order Approving an Additional Inbound Competitive Multi-Service Agreements with Foreign Operators 1 Negotiated Service Agreement (With China Post Group), December 21, 2012 at 7; Order No. 1752 at 4. The issues the Commission identified have been repeated in the supporting workpapers for the 2014 China Post filing.
- a. Please explain why the delivery unit costs for Express Mail Service (EMS) (row [a]) include the sum of the unit costs for developing countries plus the unit costs for the total (developing and industrialized countries). See cells [B][a] and [C][a].
 - b. Please explain why the mail processing and delivery unit costs for the categories in cells [B][c] and [B][d] do not equal the unit costs of the host mailpiece plus the unit costs of the respective ancillary services. See cells [A][c] to [B][d].

RESPONSE:

- a. This is an error. Please see the revised financial workpapers filed under seal that show in the yellow highlighted row [a] in 05_Product_Unit Cost_Inputs tab, the unit costs for EMS consistently as the unit costs for Total EMS. This methodology uses the most accurate and consistent cost data available.
- b. This has been corrected. Please see the revised financial workpapers filed under seal. The cells in question now reflect the unit costs of the host piece plus the ancillary costs for signature confirmation and for delivery confirmation respectively. These costs are reflected in the appropriate cells, broken out by Mail Processing and Delivery. This methodology uses the most accurate and consistent cost data available.

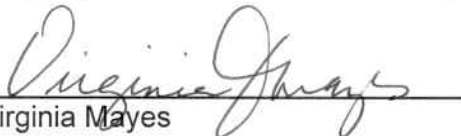
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Additionally, while reviewing the model, two references on the 01-Inputs tab were updated to be more complete and they are highlighted in yellow. The updating of these two references had no impact on any calculations in the revised financial workpapers filed under seal.

**Certification of Prices for the Inbound Competitive Multi-Service Agreement with
China Post Group**

I, Virginia Mayes, Manager, Cost Attribution, Finance Department, United States Postal Service, am familiar with the prices for the Inbound Competitive Multi-Service Agreement with China Post Group. The prices contained in this agreement were established by the Decision of the Governors of the United States Postal Service on the Establishment of Prices and Classifications for Inbound Competitive Multi-Service Agreements with Foreign Postal Operators, issued August 6, 2010 (Governors' Decision No. 10-3)

I hereby certify that the cost coverage for the agreement with China Post Group has been appropriately determined and represents the best available information. The prices are in compliance with 39 U.S.C. § 3633(a)(1), (2), and (3). The prices demonstrate that the agreement should cover its attributable costs and preclude the subsidization of competitive products by market dominant products. In Fiscal Year 2013, all international competitive mail accounted for a relatively small percentage of the total contribution by all competitive products. Contribution from this agreement should be much smaller. The agreement with China Post Group should not impair the ability of competitive products on the whole to cover an appropriate share of institutional costs.


Virginia Mayes